

TEACHERS' RETIREMENT BOARD

SUBCOMMITTEE ON CORPORATE GOVERNANCE

SUBJECT: Corporate Governance Issues/Shareholder Resolutions

ITEM NUMBER: 5

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: May 7, 2003

INFORMATION: X

PRESENTER(S): Janice Hester Amey

Executive Summary

As was reported at the last meeting of Subcommittee on Corporate Governance, CalSTRS is actively involved in supporting a number of shareholder resolutions this proxy season:

<u>Company</u>	<u>Shares</u>	<u>Meeting Date</u>
Tyco	807,649	March 6, 2003
GE	37,300,890	April 23, 2003
Ingersoll-Rand	223,698	May 29, 2003
Nabors	400,790*	Undetermined

***Current shares, no record date has been established.**

CalSTRS has hired a proxy solicitor to help with the solicitation of votes on GE, Ingersoll-Rand and Nabors. As was done with Tyco, letters have been sent out to 500 largest institutional shareholders; staff has also been contacting institutional shareholders by telephone to solicit support for the GE proposal. Staff is working with AFSCME, CalPERS, STO and other involved shareholders to develop a campaign for the next reincorporation proposal, Ingersoll-Rand.

The CalSTRS solicitation letter, signed by the CEO is attached as "Attachment 1". Staff will be available to address this item at the meeting.



April 2, 2003

Board Members

Gary Lynes, Chair

Paul Krasnow

Karen Russell

Jay Schenirer

Carolyn Widener

Ex Officio Members

Superintendent of Public Instruction
Jack O'Connell

State Controller
Steve Westly

State Treasurer
Philip Angelides

State Director of Finance
Steve Peace

Chief Executive Officer
Jack Ehnes

Dear General Electric Shareholder:

VOTE FOR PROPOSAL #10 AT GENERAL ELECTRIC CO.

We are writing to inform you that we intend to vote FOR proposal #10 at General Electric Co.'s ("GE") April 23, 2003, shareholder meeting. Proposal #10 is a shareholder proposal sponsored by The Amalgamated Bank Long View Collective Investment Fund, and co-sponsored by the California Public Employees' Retirement System (CalPERS).

Proposal #10 urges GE's Board of Directors to **adopt a policy that a significant portion of future stock option grants to senior executives shall be performance-based.** 'Performance-based' stock options are defined as: (1) indexed options, whose exercise is linked to an industry index; (2) premium-priced stock options, whose exercise price is above the market price on the grant date; or (3) performance-vesting options, which vest when the market price of the stock exceeds a specific target.

The California State Teachers' Retirement System is the third largest public pension fund in the United States with \$ 92 billion in assets. As of February 28, 2003, the record date, we beneficially owned 37,300,890 shares of GE common stock.

**PERFORMANCE-BASED STOCK OPTIONS ARE SUPERIOR
TO STANDARD STOCK OPTIONS**

CalSTRS believes performance-based options promote a better alignment of interest between managers and shareowners than standard market-priced stock options. In our opinion, standard market-priced options provide for windfall gains simply due to a general upward movement in the stock market. These options also provide much less, if any, incentive in a downward market. Perversely, these options inadvertently provide incentive to reprice in a downward market, which we feel may be contrary to shareowners' interests. For these reasons, we believe standard market-priced options provide a poor link to performance when compared to performance-based options.

Securing the financial future and sustaining the trust of California's educators.

California State Teachers' Retirement System, Executive Office
7667 Folsom Boulevard, Post Office Box 15275, Sacramento, CA 95851-0275
(916) 229-3706 www.calstrs.ca.gov

General Electric Shareholders
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Integrating performance-based options would mean that our company's participating executives would receive payouts that are relative to true outperformance and not simply supported by a rising market. We believe this provides greater incentive for long-term superior performance, and greater alignment of interests.

GE SHOULD SET AN EXAMPLE

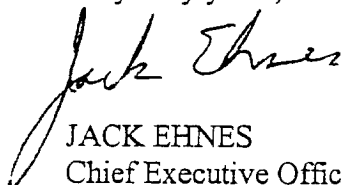
As a pre-eminent American company, GE should set an example to the other American corporations. GE has already moved to the forefront of corporate reforms by agreeing to expense options and by excluding assumed gains in pension income from executive compensation. While there are relatively few U.S. companies that have adopted performance-based option plans, we feel that this is not a viable justification for GE, or any other company, not to do it now. We note that performance-based option plans are prevalent in the U.K., and at least 51 companies in the U.S. now have some form of performance measurement or premium price¹.

YOUR VOTE WILL SEND A MESSAGE

By supporting our proposal, you will be sending GE the message that performance-based options should be a significant component of equity-based compensation plans.

Thank you for your support on this important issue.

Very truly yours,



JACK EHNES
Chief Executive Officer

PLEASE NOTE: The cost of this solicitation is being borne entirely by CalSTRS and is being done through the use of the mail and telephone communication. CalSTRS is not asking for your proxy card. Please do not send us your proxy card but return it to General Electric Co.

For additional information, please contact Garland Associates, Inc. Tel: 212-866-0095.

¹ Reference, "Applying performance conditions to stock options", May 2002, Paul Hodgins, <http://www.thecorporatelibray.com>. Note that these are provided as examples of companies using performance-based metrics. We do not necessarily support emulating these plans precisely. For example, a larger number of companies use performance measures simply to accelerate vesting, which we feel is not an optimal structure for performance-based options.